

## Background

This proposal was recently a component in the gain-sharing trade-off legislation recommended by the Select Committee on Pension Policy (SCPP) to the 2005 legislature (HB 1324). Analysis on this issue was provided in the 2004 Interim Issues Report under the *Plan 1 COLA / Gain-sharing Purchasing Power Subgroup Proposal* issue paper. In the gain-sharing deliberations during the 2005 interim, the SCPP recommended that a number of the components that had been included in HB 1324, including the Age 66 COLA, be forwarded to the 2006 legislature as free-standing legislative proposals.

The current Uniform COLA provisions require PERS 1 and TRS 1 members to have been retired one year and to be at least age 66 on July 1 to be eligible for the adjustment paid on July 1.

## Committee Activity

Presentation:

December 13, 2005 - Full Committee

Proposal:

December 13, 2005 - Full Committee

## Recommendation to Legislature

Amend Uniform COLA eligibility to include all PERS 1 and TRS 1 retirees who have been retired one year and will have attained age 66 by December 31 of the calendar year in which the increase is given.

## Staff Contact



Robert Wm. Baker, Senior Research Analyst  
360.786.6144; baker.robert@leg.wa.gov



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**BILL REQUEST - CODE REVISER'S OFFICE**

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BILL REQ. #: Z-0942.1/06

ATTY/TYPIST: LL:rmh

BRIEF DESCRIPTION: Providing annual increases in certain retirement allowances.

1       AN ACT Relating to public employees' retirement system, plan 1 and  
2 teachers' retirement system, plan 1 age and retirement requirements for  
3 receipt of the annual increase amount; amending RCW 41.40.197 and  
4 41.32.489; and providing an effective date.

5       BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

6       **Sec. 1.** RCW 41.40.197 and 2005 c 327 s 8 are each amended to read  
7 as follows:

8       (1) Beginning July 1, 1995, and annually thereafter, the retirement  
9 allowance of a person meeting the requirements of this section shall be  
10 increased by the annual increase amount.

11       (2) The following persons shall be eligible for the benefit  
12 provided in subsection (1) of this section:

13       (a) A beneficiary who has received a retirement allowance for at  
14 least one year by July 1st in the calendar year in which the annual  
15 increase is given and has attained at least age sixty-six by ((July  
16 1st)) December 31st in the calendar year in which the annual increase  
17 is given; or

18       (b) A beneficiary whose retirement allowance is lower than the  
19 minimum benefit provided under RCW 41.40.1984.

1 (3) If otherwise eligible, those receiving an annual adjustment  
2 under RCW 41.40.188(1)(c) shall be eligible for the annual increase  
3 adjustment in addition to the benefit that would have been received  
4 absent this section.

5 (4) Those receiving a benefit under RCW 41.40.220(1), or a survivor  
6 of a disabled member under RCW 41.44.170(5) shall be eligible for the  
7 benefit provided by this section.

8 (5) The legislature reserves the right to amend or repeal this  
9 section in the future and no member or beneficiary has a contractual  
10 right to receive this postretirement adjustment not granted prior to  
11 that time.

12 **Sec. 2.** RCW 41.32.489 and 1995 c 345 s 2 are each amended to read  
13 as follows:

14 (1) Beginning July 1, 1995, and annually thereafter, the retirement  
15 allowance of a person meeting the requirements of this section shall be  
16 increased by the annual increase amount.

17 (2) The following persons shall be eligible for the benefit  
18 provided in subsection (1) of this section:

19 (a) A beneficiary who has received a retirement allowance for at  
20 least one year by July 1st in the calendar year in which the annual  
21 increase is given and has attained at least age sixty-six by (~~July~~  
22 ~~1st~~) December 31st in the calendar year in which the annual increase  
23 is given; or

24 (b) A beneficiary whose retirement allowance is lower than the  
25 minimum benefit provided under RCW 41.32.4851.

26 (3) The following persons shall also be eligible for the benefit  
27 provided in subsection (1) of this section:

28 (a) A beneficiary receiving the minimum benefit on June 30, 1995,  
29 under RCW 41.32.485; or

30 (b) A recipient of a survivor benefit on June 30, 1995, which has  
31 been increased by RCW 41.32.575.

32 (4) If otherwise eligible, those receiving an annual adjustment  
33 under RCW 41.32.530(1)(d) shall be eligible for the annual increase  
34 adjustment in addition to the benefit that would have been received  
35 absent this section.

36 (5) Those receiving a temporary disability benefit under RCW

1 41.32.540 shall not be eligible for the benefit provided by this  
2 section.

3 (6) The legislature reserves the right to amend or repeal this  
4 section in the future and no member or beneficiary has a contractual  
5 right to receive this postretirement adjustment not granted prior to  
6 that time.

7 NEW SECTION. **Sec. 3.** This act takes effect July 1, 2006.

--- END ---

# DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	12/19/05	Z-0942.1/Z-1015.1

## SUMMARY OF BILL:

This legislation impacts the Public Employees' Retirement System Plan 1 (PERS 1) and the Teachers' Retirement System Plan 1 (TRS 1) by amending Uniform COLA eligibility requirements to include all retirees who have been retired one year and will have attained age 66 by December 31st of the calendar year in which the increase is given.

Effective Date: July 1, 2006

## CURRENT SITUATION:

The current Uniform COLA provisions require PERS 1 and TRS 1 members to have been retired one year and to be at least age 66 on July 1st to be eligible for the adjustment paid on July 1st. The Uniform COLA increase amount for 2006 will be \$1.29 per month/per year of service. This amount increases by at least 3% per year.

## MEMBERS IMPACTED:

This bill will impact half the members in PERS 1 and TRS 1 under age 65—approximately 16,178 PERS 1 and 11,283 TRS 1 members. The table below shows membership by age and status.

TRS Plan 1	Under Age 65	Total
Receiving a Benefit	11,499	34,624
Actives	9,620	9,862
Terminated & Vested	1,446	1,475

PERS Plan 1	Under Age 65	Total
Receiving a Benefit	12,610	54,568
Actives	16,893	17,829
Terminated & Vested	2,854	2,993

A typical member impacted will receive the Uniform COLA one year earlier. In 2006, this amounts to an additional \$387 for a retiree with 25 years of service.

## ASSUMPTIONS:

PERS and TRS Plan 1 members under the age of 65 whose birth date falls between July 2 and December 31 will receive the Uniform COLA one year earlier under this bill. We assumed that one-half of the PERS 1 and TRS 1 members currently under the age of 65 fall into this group and will be eligible to receive the Uniform COLA one year earlier.

## FISCAL IMPACT:

### Description:

The benefit improvements in this bill will increase the required employer contribution rate for the PERS and TRS Plan 1 UAAL. Current funding policy requires SERS employers to pay the PERS Plan 1 UAAL contribution rate; therefore, this bill will have a fiscal impact on SERS employers.

### Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the System and the required actuarial contribution rate as shown below:

<i>(Dollars in Millions)</i>		Current	Increase	Total
<b>Actuarial Present Value of Projected Benefits</b> (The Value of the Total Commitment to all Current Members)	<b>PERS 1</b>	\$12,818	\$34	\$12,852
	<b>TRS 1</b>	\$10,360	\$30	\$10,390
<b>Unfunded Actuarial Accrued Liability</b> (The Portion of the Plan 1 Liability that is Amortized at 2024)	<b>PERS 1</b>	\$2,563	\$34	\$2,597
	<b>TRS 1</b>	\$1,415	\$30	\$1,445
<b>Unfunded Liability (PBO)</b> (The Value of the Total Commitment to all Current Members Attributable to Past Service)	<b>PERS 1</b>	\$2,254	\$32	\$2,286
	<b>TRS 1</b>	\$1,192	\$29	\$1,221

<b>Increase in Contribution Rates:</b> (Effective 09/01/06 unless indicated otherwise)	<b>PERS/ SERS</b>	<b>TRS</b>
Employee	0.00%	0.00%
Employer State	0.03%	0.06%

## Fiscal Budget Determinations:

As a result of the higher required contribution rates, the increase in funding expenditures is projected to be:

Costs (in Millions):	PERS	TRS	SERS	Total
<b>2006-2007</b>				
<b>State:</b>				
General Fund	\$0.4	\$1.6	\$0.2	\$2.2
Non-General Fund	<u>\$0.7</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.7</u>
<b>Total State</b>	<b>\$1.1</b>	<b>\$1.6</b>	<b>\$0.2</b>	<b>\$2.9</b>
Local Government	\$0.9	\$0.9	\$0.2	\$2.0
Total Employer	\$2.0	\$2.5	\$0.4	\$4.9
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0
<b>2007-2009</b>				
<b>State:</b>				
General Fund	\$1.0	\$3.5	\$0.4	\$4.9
Non-General Fund	<u>\$1.7</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$1.7</u>
<b>Total State</b>	<b>\$2.7</b>	<b>\$3.5</b>	<b>\$0.4</b>	<b>\$6.6</b>
Local Government	\$2.5	\$1.8	\$0.6	\$4.9
Total Employer	\$5.2	\$5.3	\$1.0	\$11.5
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0
<b>2006-2031</b>				
<b>State:</b>				
General Fund	\$14.7	\$48.5	\$5.5	\$68.7
Non-General Fund	<u>\$24.3</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$24.3</u>
<b>Total State</b>	<b>\$39.0</b>	<b>\$48.5</b>	<b>\$5.5</b>	<b>\$93.0</b>
Local Government	\$34.2	\$24.2	\$8.1	\$66.5
Total Employer	\$73.2	\$72.7	\$13.6	\$159.5
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0



## STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2004 actuarial valuation report of the Teachers' Retirement System and Public Employees' Retirement System.
2. As with the costs developed in the actuarial valuation, the emerging costs of the Systems will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.
3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following:
4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.
5. This draft fiscal note is intended for use only during the 2006 Legislative Session.
6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.
7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.
8. Entry age normal cost rate increases are used to determine the increase in funding expenditures for future new entrants. Aggregate rate increases are used to calculate the increase in funding expenditures for current plan members. Benefit improvement rate increases are based on rates that exclude the cost of gain sharing.

## GLOSSARY OF ACTUARIAL TERMS:

**Actuarial accrued liability:** Computed differently under different funding methods, the actuarial accrued liability generally represents the portion of the present value of fully projected benefits attributable to service credit that has been earned (or accrued) as of the valuation date.

**Actuarial Present Value:** The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

**Aggregate Funding Method:** The Aggregate Funding Method is a standard actuarial funding method. The annual cost of benefits under the Aggregate Method is equal to the normal cost. The method does not produce an unfunded liability. The normal cost is determined for the entire group rather than an individual basis.

**Entry Age Normal Cost Method (EANC):** The EANC method is a standard actuarial funding method. The annual cost of benefits under EANC is comprised of two components:

- Normal cost; plus
- Amortization of the unfunded liability

The normal cost is determined on an individual basis, from a member's age at plan entry, and is designed to be a level percentage of pay throughout a member's career.

**Normal Cost:** Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

**Pension Benefit Obligation (PBO):** The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

**Projected Benefits:** Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

**Unfunded Liability (Unfunded PBO):** The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

**Unfunded Actuarial Accrued Liability (UAAL):** The excess, if any, of the actuarial accrued liability over the actuarial value of assets. In other words, the present value of benefits earned to date that are not covered by plan assets.

RECEIVED

JUL 12 2005

Office of the Governor

Charles Harkins  
16801 lakeside Drive  
Spanaway, Washington 98387  
253-537-9714  
eaharkins@juno.com

July 7, 2005

*Referred to  
DRS on  
10/7.*

Governor Christine Gregoire  
P.O. Box 40002  
Olympia, Washington 98504-0002

Dear Governor:

I wrote you in January 2005, but I didn't receive a reply. I know a new Governor has many obligations, so I will try again.

My January letter asked that as you put your 2005-06 budget together that you would give Teacher Retirees (Plan I) the same COLA as elected officials, state employees, your cabinet, etc. Active teachers, state workers, legislators, your cabinet and YOU all received raises. Plan I Teacher Retirees did not. Worse yet, the State took the 200 million that should have gone into the Plan I Retirement Fund and spent it on other "needs".

Did your salary increase come out of that 200 million - your cabinets? As usual Plan I Retirees were told, NO, there isn't enough money! The State took in 7% more this past year than the year before, but obviously not enough to give us a fair raise.

The Retirees negotiated in "good faith" with the State (SCPP) Committee. We thought we had a deal in which we would give up "Gain Sharing" in exchange for a guaranteed COLA formula. We gave up "Gain Sharing" and as far as I know we received nothing in return. I guess this leaves more money in the budget to fund other peoples COLAs. This is totally unfair.

I would like you or someone you appoint to compare Washington's Retiree pay, COLAs, medical allowances, etc. with the other 49 states. I would imagine that this information is already available to the Retirement Department. I would

also guess that Washington is in the lower 50%. Look at when they get a COLA (in Washington it's not before 66), what is their COLA, when does it start?

Governor, the cost of living has gone up approximately 40-50% since I retired in 1991. I have received 3 - 4 % increase in all those 14 years. My check is actually much less since medical cost have steadily increased. My wife and I are served by Puget Energy. They routinely ask for rate increases and get them via the Washington Utilities and Transportation Commission. Part of these raises go to give annual raises to their employees. The Washington Ferry System gets increases to fund raises for their employees. This pattern is true no matter what you do for a living (carpenter, plumber, electrician, lawyer, doctor, etc. etc. When Teacher Retirees want a raise we must plead with the Governor and Legislature and the answer is usually NO or we receive less than a fair increase.

You frequently say how important the teachers are to the citizens of the State. I would think that this concept would apply to Retired Teachers as well. Retired Teachers could receive a fair COLAs for less than  $\frac{1}{2}$  of 1% of the State Educational Budget if our service to the children of the people of the State of Washington was valued as it should be.

Thank you,

A handwritten signature in cursive script that reads "Charles Harkins".

Charles Harkins

Citizen  
Response  
Tracking  
Log: 604680

**Office of the Governor**  
**Mail Stop: 40002**  
**(360) 753-6780**

7/13/05  
2:50 pm  
Page 1

**REFERRAL DIRECTIONS\***

Referred To: **Casey Rundquist - CRT Analyst/Writer**

Action: **Respond as you deem appropriate (letter, phone call, director signature, etc.)  
Please return the original letter, the referral sheet, and copy of reply to  
constituent services. If you have replied by email, please send us a copy of your  
reply by email.**

Comments: Questions and comments about Teacher Retirees (Plan 1) Benefits.

Referral Date: 7/13/2005

**DUE BACK: 7/27/2005**

Return To: Tracie Schaefer 902-0674 SMTP:tracie.schaefer@gov.wa.gov

\* FOR COMPLETE DIRECTIONS REFER TO CITIZEN RESPONSE TEAM GUIDELINES.

**CONTACT INFORMATION**

From: Charles Harkins  
16801 Lakeside Dr S  
Spanaway, WA 98387  
eaharkins@juno.com

Contact Date: 7/11/2005  
Contact Type: Mail

Phone(s): Home 1 (253) 537-9714

Categories: STATEGOV

Batch: 0 BENE-RET

Log: 604680

TMS



STATE OF WASHINGTON  
DEPARTMENT OF RETIREMENT SYSTEMS

PO Box 48380 • Olympia WA 98504-8380 • (360) 664-7000 • Toll Free 1-800-547-6657

October 25, 2005

Charles Harkins  
16801 Lakeside Drive  
Spanaway, Washington 98387

RECEIVED

OCT 27 2005

Office of  
The State Actuary

Dear Mr. Harkins:

Thank you sharing your concerns about cost of living adjustments (COLA's) and gain sharing for retired teachers enrolled in Plan 1. Thank you also for your patience in our reply. Governor Gregoire has asked me to respond directly to you regarding your comments and questions.

I understand your concern about the increasing costs of living, especially as medical costs continue to escalate. We have received similar comments from other Plan I retirees and members about that plan's provisions for maintaining purchasing power.

The State of Washington sponsors a total of 14 different pension plans in 7 systems. Each of these plans are a reflection of the era in which they were created, often differing in provisions such as retirement age eligibility, disability retirement benefits, COLA's, etc. The PERS and TRS Plans I, for example, include a COLA that increases at a slower rate than the Plans 2, but a richer benefit package overall.

Changing the pension plans will always present a challenge because of the obvious cost impacts. The state legislature is the decision-making authority for changes to the plans such as the one you are suggesting. They created the Select Committee on Pension Policy (SCPP) three years ago to review all prospective changes to the plans and make recommendations. In addition to legislators, the Director of the Office of Financial Management (OFM) and myself, the SCPP includes individuals from groups such as the Washington Education Association to represent plan member interests and concerns.

The SCPP forwarded a proposal to the legislature during the last session for a permanent 20-cent increase to the Plan I uniform COLA. That proposal was not adopted by the legislature. Instead, the legislature requested the SCPP conduct a study about a comprehensive exchange of benefits in lieu of gain sharing. That study is to be completed by December 31, 2005.

Plans I COLAs are being discussed as part of this study. I am forwarding your letter and my response to the Office of the State Actuary (OSA) so that your concern can be registered again. You may want to take the additional step of contacting your legislators, as the legislature is the final decision-making authority. If you would like your legislators to know how you feel about this subject, you can do so by calling the legislative hotline at 1-800-562-6000. You might also

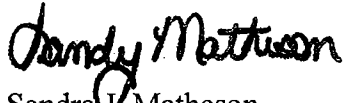


Charles Harkins  
October 25, 2005  
Page 2

consider contacting the Washington State School Retirees Association, an organization that actively advocates for retirees with the legislature.

Thank you again for sharing your concern. I hope I have provided you with new information that reflects that your concern has at least been heard, even if not yet addressed. If you have any additional questions, please do not hesitate to contact me at (360) 664-7312, or Dave Nelsen, Assistant Director, at (360) 664-7304.

Sincerely,

A handwritten signature in black ink that reads "Sandra Matheson". The signature is written in a cursive, flowing style.

Sandra J. Matheson  
Director

cc: Governor Gregoire

November 18, 2005

Governor Christine Gregoire  
P.O.Box 40002  
Olympia WA 98504-0002

**RECEIVED**

NOV 22 2005

Office of  
The State Actuary

Dear Governor,

I want to commend you for taking a firm stand against the federal government's effort to cut spending for a waste treatment plant at the Hanford Nuclear reservation. I agree that it is unconscionable for the federal government to break its commitment to clean up the Hanford project.

I also would like to request that your budget director be directed to place a line item budget amount into the 2006 supplemental budget to provide for the "buy out of gain sharing", a 1998 legislative commitment to active and retirees of Plan I and Plan III members of the state retirement system to share in what was called extra ordinary gains.

Gain sharing was a good faith legislative commitment to share with active and retirees when the investment market exceeded a 10% average return over four years. This past session the legislature had prepared legislation, HB1043 to repeal the "gain sharing" benefit that was previously negotiated in good faith and approved as an active and retiree benefit. Gain sharing is a part of the COLA benefit to reduce the loss of purchasing power for Plan I retirees.

On 11/2/05 the Select Committee on Pension Policy received an Attorney General's opinion on gain sharing which stated that gain sharing is not a contractual right. If the legislature decides to repeal gain sharing as it proposed last session, in HB 1043, it is only appropriate that an agreed upon buy out replacement benefit be provided. It would be unconscionable for the legislature to repeal this legislative approved benefit without a mutually agreed replacement benefit.

Please place a good faith budget estimate as a line item in your supplemental budget which would be used for the buy out of the gain sharing benefit.

I repeat, it would be unconscionable for the legislature to repeal this benefit without an acceptable replacement benefit. The legislature has for too many years used under funding of the pension system to balance the state budget.

Sincerely,



Robert Warnecke  
Past Legislative Chair  
Washington School Retirees Association  
1033 South 9th Street  
Mount Vernon, WA 98274

copy to: Representative Bill Fromhold  
Chair SCPP

